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How to stay out of debt when purchasing holiday gifts

Christmas is a festive time — a time when people show how much they care for family and friends by giving gifts.

Going into debt to buy those gifts is not the wisest financial choice, however, and sticking to a budget may be the best way to ensure everyone in the family has a joyous holiday season.

"You need to arm yourself with three basic things — a plan of what you want to buy, a budget and a way to pay for this," said Catherine Williams of Money Management, a Chicago-based nonprofit credit counseling firm.

She said studies show the average family will spend \$800 this year for Christmas gifts and another \$300 for ornaments, food and other trappings of the season.

There are two preferred ways to pay for these purchases — with cash or with a check or debit card.

"When the cash is gone, you go home," Williams said.

Before heading out to the stores to buy gifts and holiday accessories, schedule a family discussion about a plan and realistic holiday spending.

Williams suggested giving theme gifts to friends and relatives.

"That can be anything, and it keeps you focused," she said.

For example, give everyone calendars, slippers or inexpensive watches. Gift cards are an option, especially for family members who live out of town.

Williams said before buying a gift for someone in another area of the country, consider the shipping costs.

Shoppers who overspend and pay for large-ticket items with credit cards may find they will be paying for Christmas for months or even years. Williams said consumers who charge \$1,000 worth of gifts on 18-percent-interest credit cards will pay for those purchases for the next eight years, based on making the minimum monthly payment of 3 percent of the unpaid balance.

People who run up their credit cards should make the largest possible payments without compromising the rest of the household budget, Williams said.

Arizona State Treasurer Dean Martin offered several tips on smart holiday financial management.

“You can make the holidays even happier if you follow these 10 tips to help keep your head above water during the holiday shopping season,” Martin said in a written statement.

His 10 tips for avoiding holiday debt follow:

1. Make a budget and stick to it by placing a spending limit for each gift to be purchased. Remember the extra associated expenses of postage, entertaining and gasoline.
2. Avoid the emotion explosion. It's natural to want to shower loved ones — especially young children — with gifts, but doing so could be a budget-buster.
3. Increase income before increasing spending. Find-ing a part-time seasonal job could generate enough money to cover the cost of gifts.
4. Don't put off holiday shopping until the last minute. Take advantage of early-bird specials. Late shipping often requires paying extra for express deliveries.
5. Don't open new credit accounts, even if a discount on purchases is offered.
6. Don't buy an extended warranty. The cost of a repair or replacement may cost the same as buying the warranty plan.
7. Open a holiday savings account so it can accrue interest during the year.
8. Pay bills on time. Late payments could result in higher interest rates on credit cards.
9. Get a free credit report to make sure all information is accurate. Visit www.annualcreditreport.com to request a free report once every 12 months from each of the nationwide consumer credit-reporting companies: Equifax, Experian and TransUnion.

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